

Message Text

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ACTION NEA-16

INFO OCT-01 AF-10 ARA-16 EA-11 ISO-00 AEC-11 AID-20 CEA-02

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SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00 FRB-03 FEA-02

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FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC PRIORITY 0391

INFO AMEMBASSY ABU DHABI

USINT ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY LAGOS

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY QUITO

S E C R E T KUWAIT 3190

BEIRUT PASS BAGHDAD; STATE PASS TREASURY FOR SECRETARY
SIMON AND UNDERSECRETARY BENNETT

E.O. 11652: GDS

TAGS: ENRG, EFIN, PFOR, KU

SUBJECT: CONSTRUCTIVE U.S.-KUWAITI DIALOGUE ON ENERGY CONTINUES.

REF: (A) KUWAIT 3127 (B) KUWAIT 3076

SUMMARY: AT KUWAITI REQUEST, TREASURY EXPERTS VISITED KUWAIT
TO DISCUSS WORLD PETROLEUM PRICING AND DEMAND. IN SINGLE

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WORKING SESSION WITH SENIOR MFO STAFF, IMPORTANT DIALOGUE WAS

CONTINUED DURING WHICH KUWAITIS EXPRESSED FRANKLY THEIR OBJECT-
IONS TO LOWERING OIL PRICES, AND TREASURY OFFICIALS OUTLINED
RECENT STUDIES COMPLETED ON ENTIRE WORLD ENERGY SITUATION AND
IMPORT THIS HAD FOR KUWAIT'S LONG TERM PROFIT OPTIMIZING STRATEGY.
DISCUSSION WAS EXTREMELY USEFUL AND TREASURY OFFICIALS RECEIVED
INVITATION RETURN HERE SOON. EMBASSY BELIEVES SUCH CONSTRUCTIVE
EXCHANGES SHOULD BE CONTINUED AND RECOMMENDS INVITATION BE
EXTENDED MFO OFFICIALS TO VISIT US IN NEAR FUTURE. END SUMMARY.

1. TREASURY OFFICIALS SCHOTTA AND MCCULLOUGH VISITED KUWAIT
JULY 27-28. THIS VISIT ARRANGED AS RESULT REQUEST RECEIVED FROM
MINISTER FINANCE & OIL ATEEQY DURING VISIT OF SECRETARY SIMON
TO HAVE KNOWLEDGEABLE TREASURY OFFICIALS VISIT KUWAIT TO
DISCUSS IMPLICATIONS OF RECENT TREASURY STUDIES ON WORLD PETROLEUM
PRICES AND THEIR EFFECTS ON DEMAND.

2. SCHOTTA AND MCCULLOUGH, ALONG WITH AMBASSADOR AND EMBOFF,
ATTENDED WORKING DINNER GIVEN FOR THEM BY ASSISTANT UNDER-
SECRETARY FOR PETROLEUM ECONOMICS, SHAIKH ALI KHALIFA AL-SABAH.
CHIEF ENGINEER FOR PETROLEUM ENGINEERING, ABDULRAZZAK HUSSAIN
AND SENIOR MFO ECONOMIC ADVISOR NURREDDIN FARRAJ ALSO THERE.

3. THREE-HOUR PLUS SESSION OVER DINNER WAS EXTREMELY FRANK
BUT GENERALLY CORDIAL EXCHANGE OF VIEWS PRINCIPALLY CONCERNING
EFFECTS OF PRESENT OPEC PRICING POLICIES ON LONG TERM WORLD
OIL DEMAND, HOW TO CALCULATE MAXIMUM OIL PROFITS, AND ON
INTRODUCTION OF ALTERNATIVE ENERGY TECHNOLOGIES. AT OUTSET,
KUWAITIS REACTED SHARPLY TO PROPOSITION THAT KUWAIT'S LONG RANGE
INTEREST WOULD NOT BEST BE SERVED BY CURRENT OPEC PRICING
POLICIES. SHAIKH ALI OBJECTED THAT KUWAIT KNEW WELL HER OWN
INTERESTS AND DID NOT WELCOME "INTERFERENCE" OR ADVICE FROM
NON-OPEC COUNTRIES ON "PURELY OPEC MATTERS". HE AND HIS COLLEAGUES
INITIALLY SHOWED MORE CONCERN THAT WE WERE TRYING TO SPLIT
KUWAIT (AND SAUDI ARABIA) OFF FROM REST OF OPEC THAT IN
ARGUING AGAINST POINT WE WERE MAKING.

4. INTERESTING NEW ARGUMENT KUWAITIS TROTTED OUT WAS THAT IN
LINE WITH GOALS OF PROJECT INDEPENDENCE, US WAS BOUND TO DEVELOP
AND BRING ON STREAM NEW TECHNOLOGIES AS SOON AS POSSIBLE RE-
GARDLESS OF WHAT PRICE OPEC COUNTRIES NOW CHARGED. THEREFORE,
INDUCEMENT TO LOWER OIL PRICES TO DELAY DEVELOPMENT AND SALE
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OF ALTERNATE ENERGY SOURCES WAS NOT VALID AND KUWAIT SHOULD FOLLOW
SHORT TERM PROFIT MAXIMIZING POLICIES INSTEAD. KUWAITIS WERE NOT
COMFORTED BY COUNTER ARGUMENT THAT IN FREE MARKET NEW TECH-
NOLOGIES ONLY COME ON STREAM IF THEY ARE ECONOMICALLY COMPETITIVE.
THEY ALSO STRONGLY IMPLIED THAT DOMESTIC POLITICAL OPPOSITION
TO ANY LOWERING OF PRICE WOULD BE SUCH THAT THEY WOULD MUCH
PREFER TO CUT PRODUCTION.

5. AFTER UNDERLYING KUWAITI SENSITIVITIES AIRED AND TAKEN NOTE OF, CONVERSATION EVOLVED INTO CONSTRUCTIVE AND LARGELY TECHNICAL DISCUSSION CONCERNING TREASURY'S ENERGY STUDIES AND THE METHODOLOGY EMPLOYED TO ARRIVE AT PRICES AT WHICH LONG TERM OIL EXPORTERS COULD MAXIMIZE PROFITS. SHAIKH ALI AND FARRAJ FOLLOWED SCHOTTA AND MCCULLOUGH'S EXPLANATIONS CLOSELY AND ASKED A NUMBER OF PENETRATING QUESTIONS. THEY WERE OBVIOUSLY INTRIGUED WITH ENTIRE DISCUSSION, AND SCHOTTA AND MCCULLOUGH FOUND KUWAITIS' LEVEL OF PROFESSIONAL KNOWLEDGE HIGHER THAN THEY HAD EXPECTED.

6. KUWAITIS SHOWED THEIR INTEREST IN TREASURY REPORTS WHICH THEY HAD NOT HAD TIME TO STUDY PREVIOUSLY. SHAIKH ALI WOULD ALSO HAVE BEEN HAPPY TO CONTINUE THE DISCUSSION WITH SCHOTTA AND MCCULLOUGH THE FOLLOWING MORNING, BUT BECAUSE OF OTHER PRESSING BUSINESS (ARAB-EEC CONFERENCE; GULF-BP VISIT) AND HIS RELUCTANCE DELAY HIS GUESTS DEPARTURE UNNECESSARILY, HE SUGGESTED TREASURY OFFICIALS RETURN TO KUWAIT IN LATTER HALF OF SEPTEMBER.

7. COMMENT: SCHOTTA-MCCULLOUGH TALKS HERE VERY USEFUL AND DEMONSTRATED TO THE KUWAITIS OUR INTEREST IN MAINTAINING AN ON-GOING DIALOGUE WITH THEM, NOT ONLY ON ENERGY MATTERS BUT ON A WHOLE RANGE OF ISSUES OF MUTUAL INTEREST. POSITIVE KUWAITI REACTION TO OUR TAKING A RATHER TECHNICAL AND OBJECTIVE APPROACH TOWARDS THE ISSUES AT HAND HAS CONVINCED US IT IS POSSIBLE TO ACHIEVE SOME CONSENSUS WITH THE KUWAITIS ON CERTAIN ECONOMIC FACTS OF LIFE, IF NOT IMMEDIATELY ON WHAT APPROPRIATE POLICY RESPONSES TO THOSE FACTS SHOULD BE. WHILE MAINTAINING SUCH A DIALOGUE IS LIKELY TO BE A SOMEWHAT TIME-CONSUMING TASK, IT APPEARS TO US MOST PROMISING WAY TO PERSUADE THE GOK TO RE-EXAMINE SOME OF ITS PRESENT OIL PRICING AND PRODUCTION POLICIES IN TERMS OF ITS LONG-RANGE ECONOMIC INTERESTS WHICH DO NOT NECESSARILY COINCIDE WITH THE MAJORITY OF
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ITS FELLOW OPEC MEMBERS.

8. THE KUWAITIS PROBABLY DO NOT DESIRE THE OUTWARDLY CLOSE AND STRUCTURED RELATIONSHIP WE ARE DEVELOPING WITH THE SAUDIS. HOWEVER, WE BELIEVE THEY DO WISH TO FEEL THE US CONSIDERS THEM IMPORTANT AND WELCOME OPPORTUNITIES TO ENGAGE US IN A RANGE OF DISCREET EXCHANGES SUCH AS THIS. WE RECOMMEND SCHOTTA AND MCCULLOUGH MAKE A RETURN VISIT HERE AS REQUESTED AND AFTERWARD THAT AN INVITATION BE ISSUED TO MFO ATEEQY TO SEND SOME OF HIS SENIOR STAFF TO WASHINGTON FOR CONTINUATION OF THESE TALKS AND A TOUR OF SOME OF OUR LEADING R & D INSTITUTIONS FOCUSING ON DEVELOPING ALTERNATE SOURCES OF ENERGY.
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